...food in the United Kingdom

MARCH 2001

Canadian High Commission
Commercial Economic Division
1 Grosvenor Square, London, W1K 4AB
Telephone: +44-20-7258-6663; Fax: +44-20-7258-6384

101-05288/

TRENDS...food in the United Kingdom
~ March 2001 Edition ~

TRENDS is an occasional publication of the Canadian High Commission (London). It is designed to highlight developments in the UK food retail and food service markets, and to identify changing or emerging consumer behaviour patterns, attitudes and issues.

TABLE OF CONTENTS

INTRODUCTORY COMMENT 3

FOOD SAFETY ISSUES 6

FOOD STANDARDS 7

FOOD LABELLING 8

CONSUMER TRENDS 8

WINING AND DINING / FOODSERVICE 9

BARS & PUBS 10

RESTAURANTS 10

ENTERTAINING AT HOME 11

MEAT 11

GAME & EXOTIC MEAT 13

POULTRY 14

FISH 15

SEAFOOD 16

DAIRY 17

VEGETABLES 19

FRUIT 20

BAKERY PRODUCTS 21

CAKES AND BISCUITS 22

FROZEN FOODS 23

CANNED GOODS 25

VEGETARIAN FOOD 26

SAUCES 27

PASTA AND PASTA SAUCES 27

COOKING OILS 28

BAGGED SNACKS 28

INSTANT HOT SNACK MEALS 29

SOUP 29

CONFECTIONERY 30

BABY FOOD 31

SOFT DRINKS 32

HOT BEVERAGES 33

ALCOHOLIC BEVERAGES 34

WINE 35

CHAMPAGNE AND OTHER SPARKING WINE 36

FOOD RETAILING 37

ORGANIC RETAILING 38

WINE RETAILING 40

TRENDS...food in the United Kingdom

~ March 2001 Edition ~

"[Consumers] *are not getting value for money, if they think they're buying* [organic] *food with extra nutritional quality or extra safety. We don't have evidence to support those claims."*

(Professor Sir John Krebs, Chairman, Food Standards Agency, September 2000)

INTRODUCTORY COMMENT

How uplifting to hear a senior public official telling consumers the way it is, rather than choosing the more expedient route of buying-in to the avalanche of positive health-hype which surrounds the [UK] organics sector. This is not to suggest that organics are not or will not remain a real and important opportunity. The evidence for this seems irrefutable, as consumers continue demonstrating a near-insatiable preference for these products (witness an overall 278% increase in sales between 1996-2000). What is interesting however, is that this newly created Agency is moving aggressively to earn the long-suffering respect, confidence and credibility of the British public regarding their food system. Sir John is clear in his vision that the only way forward is through total transparency and candor. Despite protests from the organics establishment, the Soil Association in particular, we think this was an important statement which allowed the FSA to demonstrate its credentials as to whose interests will be paramount in the food chain...consumers. The credibility of this move was also enhanced by its proactiveness (i.e., not linked to a food safety crisis stampeding a forced reaction), and essentially unnecessary (i.e., we are not aware of the Agency's mandate extending to value for money issues).

Despite continued spectacular growth in the demand for organic products, the past 6 months also proved that even the most self-evident of markets remain capable of being misread or misunderstood. *Iceland* (the UK's biggest frozen food retailer) clearly demonstrated this phenomenon when they were forced to admit failure of their much publicized initiative launched only last June. The plan was to sell only organic vegetables in their private label range. Explanations abound, but essentially *Iceland* doesn't appear to have fully understood their customer profile...older, less affluent, apparently not in a position to pay even a small premium, and generally inclined to wanting an option to organic products on the shelf. This was a tough and illustrative lesson in what should be a "can't loose" segment of the UK food market.

The stalwart GM food issue has also manifest itself in a variety of interesting contexts. Most notably, two major grocery chains, Tesco and ASDA, announced they would provide a range of meat products from animals not reared on GM feeds. They now join the ranks of other retailers like Marks & Spencer and *Iceland*, and foodservice giants McDonald's and Burger King. This initiative has caused major concerns within the National Farmers' Union (NFU), largely because of the cost implications these moves pose on an already difficult farm income situation. NFU President Ben Gill noted that "It is one thing for retailers to offer consumers choice by developing lines of products from animals fed non-GM feed, but it is quite another for them to require the same for all meat products." The NFU has called on the Minister to ask retailers to suspend any such plans.

Also on the GM front, researchers at the University of East Anglia reported (based on their theoretical model) that herbicides used in GM cultivation would be so efficient at controlling weeds, there would be few wild seeds left for skylarks. And the Royal Society for the Prevention of Cruelty to Animals (RSPCA) have questioned the ethics of genetically modifying farm animals to produce more docile "zombie" pigs, aggression-free chickens, and the like. I must be missing the point...had we not long ago agreed that domesticated farm animals were the way to go, hence no wild boars in the pen or cock fights in the hen-house (?) Personally I'm looking forward to the "zombie" technology being applied to my neighbour's Rottweiler "Babe", who doesn't really seem to care whether the steaks on the bar-b are from GM-fed steers or not!

Additionally worthy of mention are survey results released by Greenpeace which indicated that 13.7 million people in the UK would prefer *(sic)* meat or dairy products from animals fed on GM crops. Needless to say, these results provoked a lot of fancy "survey methodology" type explanations from Greenpeace and others. However, the bottom line has the data showing that in a country where GMOs are widely opposed, and where this opposition has been widely publicized for over two years, almost a quarter of the population view GMOs favourably, as opposed to neutrally or negatively.

In a further effort to build consumer confidence, the Food Standards Agency did not limit itself to "speaking the truth" about organics alone. The Agency is now considering "naming and shaming" food businesses that do not meet hygiene standards. If these proposals go ahead this spring, butchers, abattoirs, food processors, caterers and supermarket cafés will face the risk of being publicly embarrassed if they fall below expected standards.

Turning to BSE, MAFF's latest statistics show that beef consumption in the UK is at its highest since 1992, and shoppers are buying 22% more processed meat products than last year. Some "experts" have suggested that the increase shows public faith in UK veterinary controls (as consumption on the Continent collapsed around reports of BSE infection and mismanagement in a number of Member States). We would suggest that it is simply proof-positive that consumers have an

unduly short attention span for even the "scariest" of food issues...and one can only guess at how much further down the road we might have been on the GM issue, had supermarkets been a touch less reactive.

Will grocery shopping ever get easier? Surveys show that I share my pet peeve with the majority of shoppers...the number one complaint is long check-out queues. Rising to the challenge, I decided to attempt the hugely publicized "shopping from home via computer" craze. Again, I shared the number one complaint for this shopping format which is the multiples' essentially "unfriendly" web-sites (despite millions of pounds invested)...in fact they simply reduced my poor machine to a pile of frozen junk. Cruising the aisles isn't getting much better either. I recall an initial grocery shopping trip made upon arrival in London (nearly 3 years ago) to the local Sainsbury. I was delegated the obviously simple task of fetching a dozen eggs...but found myself struggling back to the grocery-cart some considerable time later, bewildered and humbled by my ineptness at carrying out the simplest of assignments. True, I was overwhelmed. All I remember is being faced with a mountain of choice, not only 6 different sizes of eggs, but by a variety of additional selection criteria including whether the eggs were brown or white, where the chicken lived (barn, free-range, caged), and what the chicken was fed (organic, non-GM, corn, etc.). However, those will have to be remembered as *good 'ole days* now that the EU Council has agreed to eventually introduce 5 differing egg production categories which will require labelling. These will include "free range", "semi-intensive", "deep litter", "perchery", or "caged production". No one can doubt that consumer choice is paramount when it comes to the UK's major multiples!

And then there's all the other "quirky" stuff that's gone on in the relatively brief period since our last report. *Pret a Manger,* the company that revolutionized the sandwich bar under the mantra "Delicious natural food served by people who care" sold an important stake in their operations (30%) to McDonald's. The joint venture is seen as beneficial to both parties as *Pret* seeks to expand globally and the Big Mac looks to diversify out of burgers. However, the success of a marriage between "food factory" and "natural ingredients made on the premises" remains to be tested.

We could tell you about the Food Standards Agency's first comprehensive survey on consumer attitudes to food safety and diet, which revealed that over 8 million people in Britain (14% of the population) suffered food poisoning last year...but that might lead you to believe that the Agency faces an insurmountable task. We could highlight that children's spending while going to-and-from school is up 42% this past year...but as a poor Canadian parent in London, the thought is a little disconcerting. How about the most recent call by the VEGA (the vegetarian economy and green agriculture group) for consumers to boycott spring lamb and mutton because rearing sheep on hills and uplands is considered "cruel and against nature"...no, we don't need any sheep jokes in this serious review. And then there was *The Grocer* magazine report that corned beef boosts sperm counts...oh sure, just as the Canadian Food Inspection Agency bans the import of my favourite *Fray Bentos* from Brazil over the lack of proper BSE controls.

These and other developments of note in the UK market, are reviewed in this issue of *TRENDS...*food in the UK. Please let us know should you wish more detailed research/information on any of the market segments covered below.

FOOD SAFETY ISSUES

The European Commission is proposing to simplify food hygiene rules and give producers greater responsibility for food safety. In the EU White Paper on Food Safety, published at the beginning of 2000, the Commission recognised the problems caused by the EU's approach to food hygiene. Currently, their legislation on food hygiene is contained in no less than seventeen different directives. To overcome this problem, the EU announced that it intends to introduce four new regulations on food hygiene aimed at consolidating many of the smaller pieces of legislation and ensuring a more consistent approach to food safety. The need for "traceability" of food products and a "plough-to-plate" philosophy to food safety is being emphasised, so that safety is monitored at all stages of food production.

The HACCP (Hazard Analysis and Critical Control Point) approach, which puts more onus on industry to identify and control food safety hazards, is the underlying principle of the legislation. The [UK] Consumers' Association (CA) supports the Commission's approach because it maintains a degree of prescription about what producers can do, while allowing them the flexibility to adapt safety principles to their own food production operations. The CA believes that shifting greater responsibility for food safety controls on to food producers should help provide a stronger safeguard for consumers. However, rigorous inspection remains an essential ingredient in the meat industry, where previous moves towards de-regulation in the UK lie at the heart of many of the food safety problems experienced in recent years.

The regulations will also impose an obligation on manufacturers to ensure that if necessary, adequate product recall procedures are in place to withdraw any foods from the market which may represents a serious risk to the health of consumers. To assist product recalls, food business operators will be under a legal duty to keep adequate records to identify the supplier of ingredients and foods used in their operations. They will also have to keep records of the traceability of animals used for their food production.

In addition, the EU regulations will introduce compulsory registration for food businesses within each Member State. This is a new concept for many Member States, but has been a requirement in the UK since 1991. The proposed regulations, if adopted, will be implemented by January 2004.

Hygiene standards at food processing plants are causing more concern among consumers than other areas of the food chain. A report by the CA said that their survey pointed to consumer worries over hygiene at factories producing foods such as ready meals, canned goods and other processed foods. The survey revealed wide-spread demand for the introduction of mandatory licensing and inspection of all

food premises--including retailers, processors and caterers.

A separate survey by the Institute for Grocery Distribution (IGD) showed that on the retail side, consumers trust multiple retailers (i.e., chain supermarkets) far more than small shops. Thirty-seven percent said they trusted major supermarkets the most, while only 5% put all their faith in small retailers. Ignorance of food production methods meant some food safety judgements were based on emotion rather than fact, thereby indicating a need for consumer reassurance rather than calling on manufacturers to adopt different practices. Standards are on the whole were viewed as being the best in the world and shoppers seemed happy to accept occasional "mistakes" as long as they were short-term, relatively minor and appropriately addressed.

Genetically Modified food, BSE and the state of UK farming topped surveyed consumers' concerns. Most people said they would rather not eat GM foods but were unsure which foods have been modified. They thought it was safer to eat food grown without pesticides, but could not explain why. They were also pessimistic about the state of UK agriculture which they said was caused by price disparities between farm gate and store.

Shoppers are also being urged to take more notice of their cooking and eating habits in a bid to raise the profile of fresh food. The Campaign for Real Food--a trade organisation for independent caterers--is calling on consumers to take more notice of their diet while lobbying the government to promote fresh, "real" food.

FOOD STANDARDS

Manufacturers and retailers have broadly welcomed publication of the country's first set of standards to control the way food law is enforced at a local level. The common standards, drawn up by the Food Standard Agency (FSA) in conjunction with the Local Government Association and the Local Authorities Coordinating Body on Food and Trading Standards, comes into force in April 2001.

The initiative was immediately welcomed by the Food and Drink Federation (FDF), which said the national standard would "enhance the consistency of UK food law enforcement whilst retaining delivery at a local level and benefiting from local expertise."

From April, local authorities will be required to produce a service plan outlining how they will comply with the new standard. The FSA will monitor their activities and produce an annual report allowing consumers to compare the performance of all 499 local authorities.

A working group is also being formed to oversee the implementation of the new standard and provide a central forum for discussion to deal with enforcement issues as they arise. The FSA has said the initiative was "a radical step in the development

of relations between central government and local authorities". It would help environmental health officers do their job while reassuring the public and industry that the law was being interpreted and implemented fairly and consistently.

FOOD LABELLING

The FSA also started a campaign to change European food labelling law. It is calling on the EU to scrap directives on food labelling which stand in the way of an overhaul of UK policy. It says that research has shown that consumers find food labels misleading, ambiguous and inconsistent. A full FSA statement on food labelling is being prepared for publication in April 2001. It will outline solutions in areas where consumers have said labelling is letting them down.

In another quarter, former [Conservative] Farm Minister John Gummer is concerned about calls for what he considers too much information on food labels. He said: "What we don't want is packaging burdened with endless facts and figures. Gummer fears that consumers will ignore everything on the label if too much information is insisted on. For its part, the CA wants to see warnings for high risk foods, incorporating advice on thorough cooking of minced beef and poultry products, as well as the optimum storage temperature as label information. They also want food irradiation and genetic modification to be clearly indicated and an explicit declaration of the presence of common allergens in addition to the list of ingredients.

CONSUMER TRENDS

More and more people are tired of processed foods and want more fresh, natural fare incorporated into their diets. And they're prepared to pay. But is the industry taking notice? An exclusive survey conducted for *The Grocer* magazine revealed that more than half of British consumers are "concerned" at the number of ingredients in processed foods. Some 64% of British consumers look for convenience foods that are "fresh" and "unprocessed"--which appears to contradict present beliefs that "convenience is king". The survey found that in addition, over a quarter of Britons (27%) look to see if a convenience food product is preservative, colouring or additive-free when consulting the label.

Furthermore, 30% check the labels to assess the calorie content of convenience foods, while more than 20% look at the labels to see the number of additives. Older people are more likely to look for convenience foods that are "fresh" and "unprocessed".

These findings support research by the FSA, which monitors public sentiment on food and drink issues. The Agency found that consumers want more information about what's in foods. Consumer concerns are also becoming more sophisticated and identify a new determination to make diet choices that fit in with long-term health. The obsession with price, and latterly convenience, to the exclusion of all

other considerations no longer applies.

Conventional wisdom saw time-pressed and cash-rich consumers focussed almost exclusively on the notion of "convenience". However, the "healthfulness" of food is now clearly playing a bigger role in choice, and increasingly, "convenience" will also have to be synonymous with "good for me".

Consistent with the above, consumers no longer see meals in simply a "solutions" context. A meal or snack--on the move or around the kitchen table--is increasingly about food and nutrition. With or without hectic schedules, failure to get the right sort of fuel makes us sick, and the consumer, including supposedly burger and fries obsessed kids, know it. This is a growing trend and the food industry will need to recognise and respond to it, however the message from the consumer is that the industry is not keeping pace.

The result of this research and that by the FSA, demonstrates how much more information today's consumers want about what's in the food they eat. They want full ingredient listings and they want to know how the food has been produced. In addition, they are increasingly concerned about animal welfare and food allergies as they relate to what they are eating.

WINING AND DINING / FOODSERVICE

Foodservice sales could begin to overtake retail by 2025 as more consumers spurn the kitchen in favour of eating out. The IGD report *Catering for the Consumer* predicts that the food service market will grow 17% over the next 10 years and, with price inflation, the market will be worth £38 billion. The shift towards eating out will be driven by growing affluence, the decline in cooking skills, and a greater sophistication among consumers.

In the IGD survey, more than half those asked thought they would eat out more over the next five years. The report says that as the demand for low price meals increases, home meal replacement will become a more direct substitute for food service. It believes that foodservice operators could also build sales by providing these ready meals. Few consumers make a direct comparison between retail food value and foodservice. However, as foodservice increasingly competes for more everyday, functional eating and retailers develop more luxury food items, the value comparison will be made more frequently.

Dining out in Britain during the 21st century has remained in keeping with the magpie-like attitude to food culture in the UK. This is apparent simply by looking at the menus of the hottest new restaurants where traditional ingredients blend with global styles in a bewildering array of flavours. There is a fine line, though, between innovative food combinations and overly-elaborate "messing". Recent years have seen an increasing interest in British regional cuisine and using locally sourced ingredients which has helped revive traditional recipes and products. Under the

rather functional catch-all of "Modern British", some of these restaurants have brought traditional British tastes and quality into a new era, and the best are creating the most delicious and exciting food available in the UK.

Ethnic restaurants have been popular for years now and Indian cuisine is so established that Chicken Tikka Masala has become as British as Steak and Kidney Pie. Thai food, meanwhile, has stolen a march on the ubiquitous Chinese restaurants; and almost all counties can now boast restaurants to satisfy those hungering for a Greek or Mexican, and the range of London eateries is world class--from Armenian to Zambian cuisines.

The level of choice is undoubted, but there are question marks over whether British restaurants in general offer real quality or value for the relatively high prices charged.

BARS & PUBS

UK pub dining has come a long way from pickled eggs and cheese and onion crisps. Some traditional pubs have reinvented themselves as "*gastro*pubs" to win back business lost to the corporate chains. Certainly the traditional British pub is becoming an endangered species.

It is thought to be international travel and youthful prosperity which has utterly changed what the British expect of bars and restaurants these days--especially in London. "New British restaurant food should be 'interesting', almost infinitely culturally varied, and good value, and it should also be informal, so one person can have a snack while another enjoys a full meal. Above all Britons want to feel they have been entertained." This is essentially the message the marketing departments have got. Successful popular establishments now have a highly crafted image, or theme, which consists of a well composed package of food, decor and ambiance. The aim is to send customers away with a " total experience".

RESTAURANTS

The range of restaurants available in the UK has increased greatly in recent years yet, as anyone who has dined abroad will vouch, eating out in Britain can be an expensive business. London restaurants, for example, are more expensive than their counterparts in Paris or New York. So, is it for purely economic reasons that British restaurants are more costly, and are diners getting value for money?

One of the problems with London is that it's almost impossible to eat well AND cheaply. The lower end of the market is dominated by "chains" which offer mass-produced food poorly disguised as "homemade" with what they believe to be clever marketing and presentation. There are insufficient small family-run concerns, with the exception of the ethnic restaurants that have proliferated down the years.

There's no doubt that London and many other areas in the UK have seen an explosion in new restaurants and all of this needs massive financing to cover the UK's high property related costs. It is also a fact that most UK businesses, restaurants included, still fear the boom/bust economic cycle will continue. These are good times for UK restaurants, and money must be made short term before the emergence of any economic downturns, and in order to meet investors expectations.

ENTERTAINING AT HOME

Between 1995 and 2000, personal disposable income (PDI) increased by 12% in real terms, while savings contracted and consumer expenditure rose by 18%. This reflects growing consumer confidence over the period, resulting in consumers keeping less of a tight rein on the weekly food budget.

Women play a far greater role in the workplace than ten years ago, and represent 45% of the employed workforce. Although this may result in less time for home food preparation, women's greater economic independence is likely to result in a higher level of spending on food purchased for special occasions, such as entertaining. Further, previous consumer research has indicated that working women tend to cook more adventurous dishes on the weekend (such as when entertaining family and friends), even if convenience foods are relied upon during the week.

Consumer research has found that seven key food segments were central to home entertaining: cheese, red meat, cream, seafood, frozen desserts, savoury biscuits and dips. Of these, dips, cream, seafood and frozen desserts are the most buoyant, while red meat has suffered some decline over the last five years due to changing consumer preferences and food safety concerns resulting from the BSE crisis. A greater reliance on convenience foods, even in the sphere of entertaining, boosts demand for products such as frozen desserts, and has also helped generate interest in prepared dips and salads for serving to guests in the home.

With forecasts of economic growth, the future of the "home entertaining" market is looking positive. Use of more traditional foods, including joints of meat, cream and seafood, will be favoured by the "greying" population. However, two trends in food preparation are emerging: use of convenience foods for weekday meals; and more adventurous food preparation at the weekend. Celebrity TV chefs and in-store customer magazines, which increasingly focus on creative yet quick and easy recipes, are likely to remain a source of inspiration for the minority of more adventurous home entertainers.

MEAT

The UK the market for red meat declined in both value and volume terms between 1995 and 1999, to 743,000 tonnes and £3.2 billion. Much of the decline has stemmed from changing consumer attitudes towards the food they eat and the way they eat it. Lack of time and knowledge has been compensated for with the

payment of higher prices for more processed food which requires less preparation time and in-home processing. There has also been a change in meal structure, with meat now an ingredient rather than the focus of a meal--consumers are increasingly prepared to eat meals based around styles of dish such as pasta, stir-fry or curry, rather than beef, chicken or pork *per se*.

Beef has managed to shake off some of the controversy arising from the BSE crisis, and suppliers have moved on from shoring-up consumer confidence in beef to competing head-on with the other choices. Beef consumption is at its highest since 1992, and shoppers are buying 22% more processed meat products than last year. Beef mince remains the most popular red meat cut, due to its suitability for easy in-home processing with the addition of cooking sauces or basic ingredients to make quickly prepared and interesting meals. Joints (roasts) have also seen a rise in sales with the advent of smaller cuts suitable for smaller households.

Although beef-on-the-bone was made available again to UK consumers in December 1999, many seem prepared to make the trade-off between taste and convenience, and remain with the easy-carve options. Steak is also popular as it is easy to prepare and there is now a wide range of heat-and-serve sauces available for accompaniment.

Lamb now commands second ranking in terms of sales value in the meat market. Suppliers have taken a very proactive stance towards building sales, led by the introduction of "quick lamb cuts" which have been designed for 20-minute-or-less home preparation. These are lean, simple to cook and can easily be incorporated into current meal preferences. Joints continue to account for the highest market share. This includes small dual-serve portions as well as family-sized legs of lamb which can be bought in frozen format, reducing the cost of the family roast.

Pork sales declined sharply in value terms between 1997 and 1999, although volumes have shown a lesser fall. Significant progress has been made in educating consumers about the newer leaner cuts of pork. UK suppliers have also been promoting the welfare-friendly rearing conditions and quality of British pork in response to cheaper imports. Chops continue to account for the biggest portion of sales, but these now include boneless marinated cuts and barbecue-ready trays of meat, in addition to the traditional bone-in cuts. Value-added joints have gone some way to maintaining sales value with the addition of accompaniments, stuffings and coatings to reduce home preparation times. We of course look forward to the new Maple Leaf plant in Brandon (Manitoba) receiving its EU approval, thereby allowing introduction of its product to the UK market.

On the retail front, the major multiples have managed to continue to increase their share of retail distribution in the meat market. While they have benefited from one-stop shopping, they have also been very proactive in the sector developing new cuts, enforcing and policing their own standards and encouraging consumers to try different products through promotional campaigns and POS material. Butcher shops

continue to account for over 20% of sales, although the number of such retail outlets continues to decline. A number of manufacturers have been developing brands for these outlets and they also benefit from other industry developments. A number of farms and butchers are attempting to widen their market by addressing the consumer directly via the Internet, but for the most part, they tend to trade in specific areas such as organic or premium meat.

To maintain a viable future, meat must become an easy cooking option in a crowded food market. An improvement in the availability and number of quick-to-prepare cuts is a good starting point, but consumer education is also important. For future success, meals based around meat must be incorporated in to the culinary repertoire of younger consumers. This is already recognised by suppliers, with many promotions featuring young single people rather than families and more traditional households. Meat needs to be regarded as more easily processed in the home to provide desirable meal solutions. They must also reclaim part of the "healthful" and "safe" ground lost over the past several years within the overall media attention to food scares (BSE, salmonella, etc.), and the recent moves by several major multiples to announce the elimination of meat from animals that have consumed GM feeds...will create yet more uncertainty in the consumers' mind.

GAME & EXOTIC MEAT

The number of independent butchers in the UK is falling year-on-year, as are fishmongers, who also take part in game supply and distribution. The grocery multiples have not capitalised on this decline in game-meat purveyors due largely to a variety of difficulties including traceability, the necessity for hanging meat, category management and in-store positioning. With butchers' licensing laws set to change, the numbers of independents may fall even further, as smaller outlets are unable to cope with added training costs.

Game and exotic meats both benefit and suffer from their image as luxury foods. They can be positioned as ideal for entertaining, and with personal disposable income (PDI) increasing, this is a way forward for the market. However, the perception of game as a "high end" meat, makes it economically unappealing to many.

One of the greatest barriers to the market is consumers' feeling that game and exotic meats are difficult to prepare and cook. Indeed some may well be. However, a significant proportion are no harder to cook than any other meat, and consumers need to be educated if they are to be attracted to these products. The lack of processed game foods, especially ready meals, does not allow the consumer to try these meats in an accessible form and make them more likely to buy in the future.

Up until 1997, the game and exotic meat market was faring well. However, at that time almost all exotic meats were removed from supermarket shelves. Between 1997 and 1999 there was only 3% growth in real terms, and the market was

expected to be worth £36 million by the end of 2000. In a total game and exotic meats market worth £35 million in1999, only £2 million was taken up by exotic meats.

There are a large number of small suppliers in this market. Some distribute through regional outlets and a few nationally. However mail order, and increasingly the Internet, offer a direct sales route for these small businesses.

Duck is the most popular game meat, and this is most likely to be farmed duck. Rabbit follows as next most popular, then venison and pheasant. With regard to the more exotic end of the market, such as ostrich, alligator, and the like, many survey respondents simply "didn't like the idea of it". This suggests that there needs to be greater education about the meats themselves before any meaningful consumer inroads can be made.

So overall, the market is not faring particularly well at present and appears held back by a lack of consumer knowledge/education. Few restaurant menus feature game or exotic meats and as customers are often tempted to recreate a meal they have eaten in a restaurant, this is a serious shortcoming. Similarly, there are few convenience meals featuring game and exotic meats. Convenience foods need to be in place in order to introduce consumers to the products, and this may encourage them to further purchases of game and exotic meats in the future. Unless the multiples re-introduce exotic meats onto their shelves, it is difficult to see how this sector can expand. Presently, only those consumers with access to specialist food stores are offered the chance to purchase these products. Game has a slightly brighter future, but still has some way to go before it can compete with other meats.

Recent Canadian efforts in this segment of the market have seen the launch of a new joint venture for bison meat. It combines bison meat from established UK herds, the owners of which have been successful at on-farm retailing, with supplementary Canadian bison meat. This will allow for additional expansion into the catering sector, based on perceived demand for this type of "wild" and "natural" meat.

POULTRY

The poultry market has been affected by trends in the wider food sector which have boosted values, while volumes have changed little. The market was valued at £2 billion in 1999, a 29% increase since 1995. However, much of the additional spending was due to a switch away from the primary market and into value-added and further processed poultry-based foods.

Poultry has fallen under the "food safety" spotlight. GM foods and feeds were the headline issue in 1999, and these were being fed to poultry! This led to some groups raising concerns about the implications for the food chain. As a result, a number of the larger suppliers and retailers have implemented plans to rear birds on

non-GM feedstuffs. Costs are higher--this is evident in the higher prices for non-GM birds already on the market--but the differential will be eroded as supplies increase. Antibiotic growth promoters (AGP) also raised concerns, with the result that their use is now being withdrawn by suppliers. The "Assured Chicken Production" label, introduced in 1999, promises that products so labelled are compliant with UK standards including the non-use of AGPs, while the "Quality Assured Turkey" label has now also been extended to processed foods.

Chicken is the most sophisticated of the poultry sectors. The market has moved on towards more added value across all segments. Whole birds are still the basis of popular family meals, but positioning has been improved with the addition of stuffed, basted and coated products. More recently, quick-cooking birds ready in anything up to half-an-hour have been introduced to cut down on preparation times. A wider range of portions are now available and again, many have value adding ingredients including coatings, so they can be more readily associated with convenient final meals by consumers. However, it is in further processed products where the major innovations have taken place. Chicken is an ideal meat for trying new recipes such as crumbed, coated and marinated products. It is eaten by more people than red meats, and the variety of recipes is larger than for any other meat.

The poultry market is led by retailer brands, particularly in the primary market. The processed sector has a greater manufacturer brand presence, led by Birds Eye Walls, Bernard Matthews and Sun Valley. However, retail branding is now becoming more sophisticated with the introduction of premium, standard and economy tiers to target more sectors of the market. Supplier and retailer product innovation is a major factor in driving forward market values. Wider eating trends towards differing cuisines, healthy eating and premium ingredients continue to provide strong bases for effective product differentiation in the eyes of consumers.

The outlook for the poultry sector as a whole continues to be positive. Volumes are likely to remain constant or decline, but market values will continue to rise. It is predicted that basic primary poultry will continue to show declining volumes, despite the wide availability of cooking sauces, marinades and coatings. Consumers will continue to look for the easier option and, as a result, further processed and added value primary meat will show the greatest value growth in real terms.

FISH

When examined as a whole, the market for fish in the UK has become stagnant. Volume sales are the same as they were in 1995 at 330,000 tonnes, while value sales have increased by just 8% to £1.6 billion in the period 1995-2000. This level of growth is insufficient to offset the effects of inflation in this sector, so that in real terms the market has shown only marginal growth. External factors causing this situation include shortage of supply in some types of fish such as cod and haddock, as well as an element of consumer resistance to fish generally--although, it should be noted that this is not necessarily the case for the catering market, where

consumers are more likely to "experiment" with different types of fish.

The fresh/chilled and ready meals sectors have outperformed frozen in terms of value. In the former case this may be as a result of price increases which are more readily accepted and perhaps less easily monitored for fresh fish sold off the counter. Fish-based ready meals have shown the highest recent growth rates in terms of value (an increase of nearly 15% between 1997 and 1999), but this is from a low base and is unlikely to affect total market performance dramatically.

Within the frozen fish sector, valued at £626 million in 1999, coated products have a 52% share, with fish fingers contributing 16% of that figure. Natural and smoked fish contributed a further 26% of frozen sales, with fish meals and fish-in-sauce representing 22%. The latter, small sub-sector has seen the highest growth rate at 17% in the period 1997-99.

Even with the very broad variety of fish species now available in the UK, it remains the case that cod, haddock and salmon (in that order) generate 58% of all retail fresh/chilled sales. No other species has a share in excess of 10% which suggests that the UK consumer remains essentially conservative, at least as far as using fish in the home is concerned.

Similarly, the canned sector revolves around two species with tuna and salmon providing just over 82% of sales. Versatility is the key to these products, which can be used in a variety of recipes as well as salads and sandwiches. New product development has also been an important factor and this has tended to concentrate on tuna-based products.

The steady demise of the traditional high street fishmonger has further strengthened the dominant position held in this market by grocery multiples. Not only are these outlets best placed to offer a range of frozen and canned products, but they are also accelerating the decline of the fishmonger by opening their own fresh fish counters.

SEAFOOD

The UK market for seafood increased by over 8% in terms of volume in the period from 1995-2000, but value growth was much higher at 21%. The market was worth £167 million in 2000, which equates to 13% growth in real terms on 1995. The divergence between volume and value growth indicates that more value-added products are being introduced by processors and retailers, and that consumers are showing a preference for more expensive species.

Frozen seafood accounts for 69% of retail volume sales and 71% by value. This is because a high proportion of prawns are imported, sometimes having been shipped over long distances, in addition to the fact that, at least in this area, the consumer places greater trust in freezing than any other methods of preservation. The fresh/chilled sector, which actually includes product which has been previously

frozen at some stage, accounts for a further 27% of market volume, leaving only a very small share for the canned/bottled segment (4%).

Prawns (shrimp) and scampi contribute more than 90% of all retail value sales of seafood. The prawn (shrimp) sector comprises a wide variety of species and presentation formats (e.g., cold or warm water, cooked or raw, peeled or in-shell, etc.).

In 1999, UK landings of shellfish returned to 1994 levels in value and volume after seeing the market peak in 1996/97, while imports of fresh and frozen seafood have risen by 28% in volume terms and exports have grown by 26% in the same period. This argues a considerable level of re-exportation, a heavy dependence on imports within the UK domestic supply structure and a healthy export market based largely on species valued more highly by consumers outside the UK.

The grocery multiples' own (private) brands accounted for around 67% of all retail frozen seafood sales in 1999. Only Young's Seafood, now merged with Bluecrest, has a measurable branded market share in its own right. While there are many other shellfish processors around the UK, and especially in Scotland, these tend principally to supply the catering trade and retailers' own brands.

DAIRY

Imports of speciality cheeses have risen by 9%, and has been accompanied by some substantial shifts in trade patterns among the varieties. French exporters have lost ground to their Dutch, Danish and German counterparts-with the exception of Danish Blue makers. Brie and Camembert witnessed a 23% slump to 3,815 tonnes, and Edam tonnages fell 12% to just over 4,000 t. There was also some slippage in import tonnages of blue cheese, which dipped by 23% to 2,171 tonnes, while Gouda style cheese fell back 16% from just over 2,000 t down to 1,734 t.

However, there was a 35% lift in feta volumes, which rose to over 2,500 t. This follows major investments in feta lines by French and German producers, anticipating the term "feta" returns to generic status...much to the inevitable dismay of Greek producers. Italian producers also saw a 32% lift in shipments of varieties like *Grana Padana*. In addition, processed cheeses remain a firm volume favourite, with tonnages for the first seven months of year 2000 showing a 22% year-on-year increase to 22,618 t.

The ongoing low levels of UK milk production are continuing to push up mild and medium Cheddar prices. Increases of £50 and £100 a tonne in wholesale rates have been recorded. Cumulative wholesale milk figures for the quota year to September 2000 showed a 215 million litre gap against 1999...this is equivalent to nearly six days worth of averaged production.

In addition, prices for Double Gloucester and Red Leicester have joined mild and medium Cheddar--movements of £50 a tonne are being quoted at the bottom end of the price range. It is likely that the whole price band for these grades will start to move up as last summer's shortfall in cheesemaking starts to bite. The effect is only starting to become visible in medium grades, but mature and farmhouse grades will take their turn in due course.

Nor are the next set of MAFF milk utilisation figures likely to tell a brighter story. With the exception of whole milk powder, the entire British dairy industry has had less product to sell throughout the calendar year to September 2000--in averaged out figures, this comes to -9% in butter, -8% in cheese, -19% in SMP. There was a hint of recovery in milk output before Christmas, however it will take more than an 800,000 litre week-on-week lift in wholesale milk production, currently just under 230 million litres a week, to bring the supply back into balance with demand. Even with January and February seeing a lot of early calvings, milk output from these cows will not reach their peak for a further 100 days, by which time the output gain is barely discernible against the high numbers of cows starting lactations in March and April.

The butters and fats category was not tremendously exciting in year 2000. It's difficult to separate Clover, Utterly Butterly and I Can't Believe It's Not Butter, as one only outdoes the other and becomes the bestseller when it goes on promotion, but volumes remain similar when they sell at standard prices. What is surprising is how easily consumers will move to buy own (private) label in this segment.

The fastest growing sector within yellow fats is now olive oil based spreads. With the increased awareness and consequently usage of olive oil in cooking, olive spreads are quickly catching up with the buttery spreads in terms of sales. *'Olivio'* has done well from TV promotions, and it will be interesting to see how their new product *"Olivio* butter" does.

As one of the most mature markets in the grocery world, "yellow fats" often struggle to match other sectors in terms of innovation. Not only that, but the very nature of butter/margarine spreads is that there is only so much of it you can use. As increasing consumption is probably not an option, pricing strategies have played a big part in the shape of the market.

While many UK consumers are happy to concentrate on taste issues alone in their choice of spread, many are still considering the health implications of certain yellow fats. One of the most successful new launches was Benecol, with its claims of reducing cholesterol levels. Sales grew quickly and have stabilised at a robust level, certainly enough to categorize it as a successful new product. However, even if yellow fat consumption is not about to breed a nation of butterholics, yogurts and dairy desserts continue to keep the country's cows busy. Sales have increased by nearly 7% in the last year, £65m in actual sales, which means that the category is now worth over £1 billion.

Muller continues to lead the yogurt category. However, this is a reflection of the amount of promotion that they have carried out, as it does particularly well during promotional periods when more shelf space is devoted to the product. Weight Watchers, Ski and Shape are also doing well and so do the regional offerings. However, it is promotions that drive volume. The yogurt on promotion tends to become the best seller.

Consumers in the UK market are notoriously promiscuous, hunting out the latest bargains for their requirements, and this is particular prominent in the dessert markets. One of the keys to *Muller's* success is the large and ever changing range of products, particularly in *Muller's* "Corners" product line. This keeps the fixture fresh and exciting, an important factor in what can be a static market. For the kids, its products featuring popular characters such as The Tweenies, Pokemon, or Bob the Builder that have been driving innovation in the market. They keep the fixture fresh and because they only have a limited life, they keep the kids interested with a permanently high novelty value.

Overall, the chilled desserts category aimed at the adult consumer is growing faster than the children's sector. And the yogurt and *probiotic* drinks sector is harnessing adult consumers' health concerns with drinks such as Yakult and Actimel showing phenomenal growth over the past year.

As far as yogurt and milk drinks are concerned, *Frijj* is the bestseller, with *Yakult* not far behind...sales of 40,000 little pots a month have been reported, which is significant, and is in addition to the regional *probiotic* drinks that most retailers stock.

VEGETABLES

The entire UK prepared chip (fries) market runs to about 800,000 tonnes a year, with the bulk of this, estimated at upwards of 75%, consisting of frozen chips, mainly of the oven baking variety. The deep-fat fryer is no longer as common a kitchen appliance in the UK as it used to be, partly due to the public's increased health consciousness, but more because of the convenience of oven chips. There are no exact figures as to how big the chilled market is, but estimates run at about 150,000 tonnes a year. Growth is believed to be around 5% annually.

However there is an overall feeling that people are moving over from frozen to chilled fries, due to their cooking attributes which result in less fat absorption than from frozen chips. At present only a tiny amount of chilled chips are on sale in the multiples, with these forming part of fish and chip meals to be cooked in the oven.

Potato crops have been affected by the severe flooding experienced late last year in the UK. English vegetable growers are also suffering for the same reason. Flood damage has added 25% to costs because of extra labour and cleaning. In some cases, root crops have been hand-harvested because of tractors being unable to access muddy fields.

Over the past few years, the prepared vegetable sector has benefited from many of the major issues that have positively affected the fresh produce industry. Scares about the safety of meat, the growth in the popularity of organics, and the consumer's wish for more healthy food have all made people want to eat more and more fresh vegetables. This, coupled with the changing attitude towards work and leisure, where people have more money but less time, has meant that prepared fresh vegetables have found a very profitable and increasing market.

One of the areas of growth that cannot be ignored is that of organics. Consumers are willing to pay more for what they perceive is a healthy option, which in itself is a vast change, and you can see the ramifications across the board. Aside from a growth in vegetarianism, a lot of meat eaters are eating far less meat, with the notion of a meal without meat being not such an unheard of idea any more. For example, in the past the vegetarian might have had a cheese and pickle or cheese and tomato sandwich to choose from at a sandwich bar, but now there is a wealth of options widely available, from flavourful Mediterranean spreads to brazed peppers.

Of all the various categories of fresh produce available on the UK market, none can claim to have experienced quite the staggering level of growth as prepared salads. Starting out with washed iceberg and other simple salad mixes, the late 1980s and 1990s saw expansion to the tune of 20 - 30% every year in this segment, as more sophisticated products were added in response to the seemingly insatiable appetites of convenience hungry consumers.

The structure of the market and the mixes available have changed, there is for example, more sweet leaf and baby leaf salad being incorporated. There has been a move away from the classic taste to more sophisticated products such as oakleaf, *loolo rosso* and tasty baby leaf varieties such as *mixuna* and *tatsio*...and the trend suggests that the search for new tastes/flavours will continue unabated.

FRUIT

As increased consumer sophistication and lifestyle changes continue to have an overriding influence on the marketing and promotional tactics of the food industry, and prepared foods become more popular than ever, the fruit sector has also experienced substantial growth over the last few years. Curiously though, it is only very recently that growth in "prepared fruit" has started to compete for shelf space with prepared vegetables and salads. In fact, consumer expenditures on prepared fruit actually surpassed that of prepared vegetables recently, and this has given extra confidence to producers of fresh prepared fruit.

Up until just over a year ago, prepared fruit was relatively unknown to the British consumer. One of the problems is in the cost of finished fruit compared with fresh, individual fruit, which is often eaten as a snack item. Most fruits are eaten raw, require little preparation and are generally seen as a "snack", rather than a dessert.

Following this logic further, the majority of consumers are far less inclined to snack on vegetables and therefore vegetables and salads are perceived more as a genuine meal item and can more easily be marketed and sold as a prepared package. Recently, however, with the introduction of new prepared fruit lines, and a more determined effort on the part of the retailer to promote them, the earlier success of prepared salads and vegetables is now being matched by prepared fruit. It is believed that prepared fruit products are starting to take-off as customers begin to alter their lifestyles...consumers want healthy and convenient food. In some ways it is following on from the changing "take-away" ("to go") food trend. What is really happening is that retail outlets are now offering their customers fully prepared, ready to serve complete desserts. Moving the product further down the prepared route again saves the consumer both time and effort, and there is also no perceived wastage of product by the consumer.

As other major retailers begin to support the "prepared fruit" category, so the availability and style of the products will gradually change. One example of this is the current availability of organically prepared fruit. A key problem with organic fresh prepared fruit is that it is much more difficult to produce (and thus much more expensive), with one of the main production constraints being the very stringent controls laid down by the Soil Association. It must all be accredited and kept totally separate from non-organic fruit, both at grower and processor stages. However the availability of organic varieties is seen as an important step forward for prepared fruit.

Another way in which the future of the sector could manifest itself, is in products appearing at the luxury or exotic end of the market. A major retailer had "Oranges in Grand Marnier" on sale, a luxury classified product to be sure. The future could well lie in themed products promoted at specific times of the year, such as Valentines Day or Mother's Day promotions in which specific mixes of fruit would be used.

Current exports of Canadian blueberries to the UK have recently been challenged by a newcomer to the market. Chile has set its sights on becoming a significant blueberry supplier, with it's production levels increasing by 100% over the last two years to 1,600 hectares. International export sales have now topped US$24 million, and in the long term, with new plantations coming on stream, the current 5,500 tonnes crop could at least double in a heavy yield year.

BAKERY PRODUCTS

Even though the standard bread market is flat, there are some shining products that have driven growth in the bread market overall, including super premium products such as Hovis Farmhouse, foil-wrapped long life breads, like Mother's Pride "Stay Fresher", as well as a number of dietary, organic and ethnic breads.

Consumers have never had so much choice in the bread category and they are prepared to pay more when a product offers added value, quality, or something

different. Tastes have broadened and experience of food from other cultures encourage adventurous choices. We also have more daily exposure to usage, many high street sandwich shops sell ready filled wraps, so consumers recognise them and buy them to make their own wraps at home as an alternative to a sandwich. It wasn't so long ago that a *baguette* was considered exotic, but now flat breads, such as pitta and nan, and the Italian favourites *ciabatta* and *focaccia* are in high demand. In addition, the organic bread segment has taken-off.

Bagels are a relatively new mass-market product...and a fast growing one! Sales of bagel related ingredients have increased by 300% in the last 12 months, indicating that the bagel has finally arrived back in Europe. Many bakeries and catering establishments are now using bagels as sandwich filling carriers. The natural chewy characteristics of the bagel, its tasty flavour and low fat content are just what the health conscious consumer is looking for. Canadian enterprises are well represented in this market segment. Maple Leaf does significant private label business for the major multiples, Fiera Foods (out of Toronto) supply Sainsbury's and other in-store bakeries throughout the UK, and the likes of the Great Canadian Bagel Company are present on the foodservice scene.

CAKES AND BISCUITS

A sign that the UK's sweet tooth is healthy can be found in the strength of the total cake and biscuit (cookie) market which is worth £2.2 billion (the cake market £823 million and biscuits £1.42 billion). Both markets have struggled over the past 18 months as retailers' promotional activity, which benefited impulsive treat markets through heavy multi-buy support, has shifted towards a balanced mix of EDLP (Every Day Low Prices) and more targeted promotions. This is shown in value performance where growth is negligible (biscuits +0.7%, cakes 0%) and in volume (biscuit -2.0%, cakes -2.6%).

Evidence from the biscuits market, where the dominant chocolate biscuit bar sector (29% value share but declining by -2.8%) and everyday biscuit sectors (17% and down by -3.4%) shows a drop in value and volume terms. These sectors cover nearly half the packs bought, and so have hastened the market decline. A similar pattern emerges in the cake market as traditional small cakes and whole cakes sectors decline.

Within the cake sector, private label accounts for five of the top 10 range but, with few exceptions, they are all in decline. Brands are growing, even in the declining small cakes sector. This may be due to the more selective promotions, which support these products rather than staple private label offerings. The latter have tended to be discounted within the every day low price (EDLP) strategy and as such attract less impulse buying.

Fresh cakes offer a lucrative opportunity to target those prepared to pay extra for that indulgent treat. Private label has previously been dominant in the sector, but

recently two companies have ventured into the chiller. This is viewed by some as a sleeping giant category for some time, as there is a trend towards chilled foods, but until now there hasn't been any branding activity. Under the Cadbury banner, Signature Foods launched standard *éclairs* and *choux* buns, plus ones with Cadbury's Caramel centres. The company says its share of the £115 million chilled cream cake market by value is equivalent to 3%, and now it has national distribution and expects this figure to grow.

Rival, Entenmann, has a strong foothold in ambient U.S.-style cakes, specialising in limited editions, which are refreshed every 10-12 weeks, and low fat variants. It also has three chilled lines--New York baked cheesecake, chocolate cheesecake and carrot passion cake. The company says the brand was worth £500,000 after eight weeks.

It would be fair to say the past 12 months have been unspectacular as far as the biscuit category is concerned. The major biscuit suppliers have found it difficult to drive growth in a static marketplace and what new product development there was took the form of range extensions rather than range development. That said, biscuits remain a very important category and fully justify the generous fixture allocations it is given in grocery retailers.

The biscuit archives will show 2000 as the year when biscuit suppliers tried to relocate their brands away from the traditional biscuit fixture. The introduction of tube-packaged variants across the McVitie's range (Digestives/Jaffa Cakes/ Hob Nobs) is an example of biscuits joining the emerging "eat now" market. This movement is set to take the product out of the home and into different eating occasions and sees biscuits sitting alongside sandwiches, soft drinks and other snacks in the food to go cabinet.

The year 2000 also saw continued support for low fat biscuits such as McVitie's *Go Ahead!* range. These products operate in a niche market where the multiples are making the best gains through devoting a wall of low fat biscuits that health conscious shoppers find difficult to ignore. In the independent retail sector, *Go Ahead!* and *Chocolate Caramel Crunch* aside, they are not enjoying similar benefits. This is for two reasons: first, consumer profiles dictate a more traditional and diverse range to satisfy consumer requirements; secondly, everybody has different favourites and these are difficult to accommodate since space on fixtures is at a premium.

FROZEN FOODS

Frozen food is back on form. After a disappointing couple of years in which growth slowed, 1999 it put in a very positive gain of 4%, pushing the total market to £3.8 billion (excluding ice-cream), and the figures for year 2000 are expected to show that gains will have been even greater. Some of the higher value sectors, like burgers, did extremely well, and key manufacturers believe there's some very encouraging performances in the market.

Convenience is still believed to be the driving force behind frozen foods' growth. Improvements in quality plus extensive product innovation are also having a positive impact on sales. Price is also a key driver, with over 40% sold during promotional deals, with consumer research showing that this is one of the main attractions.

Birds Eye Wall's (BEW) and private label have been the market's dominant forces in the last few years. Heinz's acquisition in 1999 of UB's frozen operation, which includes top brands such as McVitie's *Go Ahead!* pizza and desserts, Jane Asher and Devonshire desserts, the Linda McCartney vegetarian range, plus a substantial private label business, has brought a second major player to the market. Heinz reports that it has designated frozen food as a growth category in the UK and globally, and so will be investing heavily in it, in both brand and private label.

So which of the market's 10 categories are thriving and deserving more freezer space? And which ones are on a losing streak? Fish, the biggest sector at £621 million is sliding with volumes down 7%. This is largely due to raw material shortage which, in turn, has pushed up prices and led to less promotional activity in the marketplace. However, BEW, the biggest brand, reports that it saw its sales value increase over 7% for its fish products, largely due to the success of its *Simply Cod,* a four portion pack of breaded or coated chunky cod steaks which came out in 1999. Its been one of their most successful fish launches ever, and is attributed to the quality of the product.

The fish market is now looking forward to a period of interesting developments following the Youngs-Bluecrest merger creating the largest UK owned chilled and frozen seafood company. The two businesses have been brought together and restructured to create a retailer focussed sales force that will handle both private label and a brand portfolio which includes Young's Ross and Chip Shop. They are now the largest seafood sourcing infrastructure in Europe. This gives them a tremendous resource to grow the market, which they plan to do by adding value, making fish more convenient for consumers, and by creating new ways of eating fish.

Over the years, the frozen pizza market has become more and more dynamic, with innovations and variations appearing on a regular basis. Just over a year ago, McCain introduced microwaveable pizzas to the market. Their success (sales in excess of £12 million) has been a further example of the need for time-savers in the kitchen.

The frozen pizza sector is worth £326 million and grew at 8% year-on-year. Deep pan pizzas have the largest share, but this sector includes rising dough products, a relatively new and successful development in the market. The total pizza market has had healthy growth in both value and volume terms over the past year. Frozen pizza accounts for the largest share of the overall pizza market with more than 60%

of the total value. The chilled and frozen sectors are quite different, largely because there is a much stronger presence of brands in the frozen sector, whereas private label products dominate in chilled.

Ready meals area also doing very well, but it is difficult to say any one product has been a shining light. A 5% growth rate makes it the fastest climbing frozen food segment. The opportunities lie in quality products at excellent value for money. This is borne out of the ready meal sector with the Indian and Chinese ranges where customers are being provided with products that are reasonably authentic and sales are proving to be less "deal" reliant.

One of the permanent problems of the frozen food markets for the manufacturer is persuading people to browse. Put simply it just ain't appealing for a shopper to spend much time hanging around chilly freezer cabinets, so it is often very difficult to make consumers aware of newly introduced products. It has generally been a sector with loads of promotions, but little growth, innovation, interest or brands, to drive things forward. In addition, the rise in popularity and prevalence of chilled foods has had a largely negative impact on the frozen category as a whole.

While the majority of ready frozen meal brands have remained static in terms of sales, there has been one notable exception in the *Oriental Express* line. This new range of Chinese "snack meals" has grown by more than £13 million and been the driving force in one of the few flourishing frozen segments. It has succeeded in bringing new consumers to the fixture through innovation and marketing.

CANNED GOODS

The canned goods category continued to flounder in year 2000 as "fresh" and "convenient" became watchwords on 21st century shopping lists. After 150 years service, the tin can is more versatile, economical, and convenient than ever, with easy open ring-pull lids becoming more or less standard. But familiarity has bred contempt among consumers, and even easy open, easy pour, microwaveable formats are vulnerable to flashier alternatives such as pouch options which are laden with highly colourful and appealing graphics .

As with other staples, multiples use price as the main promotional tool in the canned section, offering multi-buy discounts and larger pack sizes which further devalue the category. In fact, the only canned segment that is growing is "baked beans and canned pasta", up a very modest 0.3% to £278 million.

The canned fish category dropped 2% to £262 million over the past year. With private label accounting for 43% of this category...the biggest canned fish brand being John West. Within the branded category, John West's sales fell by over 2% to £72 million giving it a 27% market share. Princes brand increased its canned fish sales by 2% to £57 million (a 22% share).

When considering innovation and canned foods, we would be remiss not to mention the UK's first organic hot dog in a can from Ridpath Pek was recently introduced. Many would have thought that "organic" and "hot dog" would have been a fundamental contradiction in terms...let alone that they came in a can....but will of course defer as always to the consumer's good judgement.

It remains to be seen whether a new campaign from Canned Food UK (a new organisation formed from food processing and metal packaging companies) can give consumers fresh ideas about canned foods before the whole sector goes stale.

VEGETARIAN FOOD

Gone are the days when a plate of vegetables or DIY veggie-burger mix was all a vegetarian guest could expect. Innovation has sparked an endless variety of products, and the rise in quality and convenience has helped woo more consumers to meat-free lines. Manufacturers have risen to the taste challenge, a prime factor for growth, and actively sought to attract consumers claiming to be vegetarian but who regularly bend the rules to suit lifestyles.

The vegetarian-specific foods market is worth £428 million, with ready meals taking the lion's share of sales, and the use of meat substitutes is on the increase. Consumption of vegetarian food peaks and troughs each time the latest BSE/CJD figures hit UK headlines. Nevertheless, the number of vegetarians remains a steady 3 million in the UK, equal to 5.4% of the population. In addition to this, there is another 40-45% of the UK population who are seriously cutting back on the amount of meat they eat.

Ethical considerations used to be the main factor why people cut back on meat. However, in recent years, food scares and health issues have taken a big role in terms of influencing consumers to re-evaluate their diets and take more interest in their food intake.

Following the trend in the certification of foods and labelling regulations, the Vegetarian Society is calling for a legal definition of the word "vegetarian". It claims to have "invented" the word, but says there is still confusion over its meaning and usage. They argue that the Food Standards Agency supports more fulsome labelling on packs, on organic, and on restaurant menus, yet at the same time there is no legal definition of "vegetarian".

The Vegetarian Society strictly monitors its trademark symbol which can be seen on more than 2,000 products in the UK and abroad. Meat, poultry, game, fish, by-products such as gelatine, rennet and animal fats are all forbidden as far as the society is concerned, and eggs must be free range (?) Last summer it added GM-free to its list of stipulations, and in fact axed 187 products from using the symbol because the manufacturers couldn't guarantee they were GM-free.

SAUCES

On the face of it, cooking sauces might not appear to be the most likely candidate to be a fast growth category. But, as we have seen from a number of other grocery sectors, today's consumers who have been dubbed "cash rich, time poor" want convenience above almost everything else. As a result, manufacturers are devising ever more simple and quick sauces for those who enjoy home cooking but don't have the time they would like to do it.

Sales in liquid cooking sauces have grown by £38 million in the last year, and a good proportion of these extra sales have come from new products. As new products emerge, the range is increasing in the supermarkets, which is quite unusual, as often a new brand will replace an older, less profitable one. But consumers are clearly enjoying the range now available to them and are taking advantage of the constant stream of promotions. Loyalty in the category is low because of these special offers and so the category and its manufacturers are being kept on their toes--which is all good news for the sauce buyer.

PASTA AND PASTA SAUCES

Convenient, versatile, inexpensive--pasta has a long list of virtues, all of which are helping make it an increasingly important part of our diet. Yet despite its rising popularity, consumption is still low in the UK at 2.5 kg per person a year--significantly lower than on the continent where consumption is more than double this amount. In Italy, average consumption is 28 kg per head.

This low level of penetration represents a huge opportunity for retailers to develop and grow the category. Latest figures confirm this, showing that the total market at £315 million is still relatively small compared to other categories, but growing at a healthy 10%. Within this, some segments are doing spectacularly well, notably ambient pasta sauce, up 18% and fresh pasta, gaining 10% over the last year.

Surprisingly, fresh pasta sauces, a sector tailor-made for innovation and excitement, has turned its spectacular 22% rise in 1999 to a small decline of 1% during year 2000. The value of dry pasta also fell from 5.5% growth in 1999 to -0.5% during year 2000, though volume has risen 4.5% in the current period.

The dominance of private label in these two sectors has led to a low level of advertising and consumer education, and it is widely held to be the reason for fresh sauces and dry pasta not fulfilling their potential.

The market is very much skewed towards young families and higher income households. While consumers like pasta for its taste, convenience, low price and nutritional value, they have little product understanding, often lack confidence in cooking pasta and tend to believe all pastas are the same.

Fresh pasta has seen continued growth over the last few years and now stands at £45 million, with a 12% year-on-year growth. This growth has been driven primarily by the increase in the number of fresh pasta consumers. Over half a million new households have started buying fresh pasta in the last 52 weeks, bringing the total penetration to over 22%.

COOKING OILS

Traditional cooking oils face two downward pressures on sales: people eating out and a growing interest in healthy eating habits; and that people are happily trading up to premium priced olive oil.

The olive oil health message is getting out, but take-up is being held back to a certain degree due to the relatively high price. Olive oils carried the kudos of association with a "healthy" Mediterranean diet. People are increasingly aware of the advantages olive oil has over other fats, specifically the high proportion of mono-unsaturates. As with tomatoes and red wine, there is a growing body of research on olive oil's potential contribution to a healthy diet.

In general the oils market value has remained virtually static during the last year, due to continued growth in premium olive oils which compensated for the decline in traditional cooking oils (sunflower/vegetable). Total market value stands at £133 million, with cooking oils maintaining the largest share at 58% (down 2.4% on last year).

Cooking oils are worth approximately £76.5 million, with this sector experiencing a 4% decline in value in the last year, largely driven by reduced popularity of private label vegetable oil. Sunflower oil has seen an approximate 3% value growth with both Flora and Tesco brands enjoying strong performances.

Olive oil now commands an over 38% value share of the oils category and is worth nearly £51 million. The growth in this sector has been driven by private label, with a particularly strong performance by Tesco's extra virgin olive oil.

With a category share of just 4%, speciality oils have shown a small growth over the last year of 1%, bringing the total sector value to nearly £5.5 million. Sesame oil is the only type of oil showing growth in this sector.

BAGGED SNACKS

The main growth in the crisps (potato chip) and snack market in the UK in 2000 has been from snacks...although in Scotland the focus is on crisps as Walkers and Golden Wonder continue to fight for dominance of this market.

The introduction of Walker's evening snacking concept has gone well and has brought in new customers to the market. This fixture area is in the main located

adjacent to beers, wines and spirits, and not part of the standard snacking section, therefore bringing incremental sales.

There has been a great deal of price activity on crisps and snacks over the past year from retailers who have seen this as a key sector to pull in more customers. There have also been far more "nine-for-six" packs and other similar multi-packs in the sector as a total.

INSTANT HOT SNACK MEALS

Instant hot snack meals aren't the sexiest products on shelves but a growing demand on people's time has resulted in a steady growth for these quick and easy hunger breakers. With no culinary skills required, they have become a boom for young, time poor consumers.

Worth £112 million, the instant hot snacks category has grown 0.6% year-on-year, but suppliers and retailers are keen to create more growth in this use-and-pitch area. *Pot Noodle* was the first onto the market when it was introduced into the UK some 21 years ago, and it is still going strong. Manufacturer Bestfoods claims 30% of people in the UK are "short-of-timers", and this figure is set to increase by 10% over the next five years.

The arrival of new entrants such as Tastebreaks, Snack Stop and other private label pot snacks has fuelled the need for more shelf space. Bestfoods has a 21 strong Pot Line which stretches across the spectrum of noodles, rice, potato and pasta. Its latest product is the 400 g size *King Pot Noodle,* developed in response to research showing 27% of over 16s didn't feel the original 300g filled them up.

Bestfoods £11 million Knorr *Tastebreaks* brand is aimed at an older audience. The three year old pot snack includes soup, pasta and potato variants. Whereas *Pot Noodle* has a more male bias, Crosse & Blackwell's *Snack Stop* hopes to pull in the girls. The two year old brand has just had its first make-over to give its new eight strong range a more grown up, *foodie* appeal. With less fat, fewer than 300 calories and six vegetarian lines, they are designed to woo 18 to 22 year olds.

Nestlé created a £15 million brand with *Snack Stop*, and with *Tastebreaks*, opened up the fixture to a wider audience. Household penetration has risen from 34% in 1998 to 40% in 1999, which equates to an extra 1.6 million buying a hot instant snack in one year.

SOUP

Soup is a mature market, with the packet/bowl sectors in decline. Overall, some 84% of housewives buy soup (canned), but the frequency of purchase is slowing. The market did shown a healthy rise in real value terms between 1995 and 1999 and that is attributable to consumers spending more per purchase. This indicates a

degree of trading up to premium soups, particularly of the fresh chilled variety, which had a market value of some £56 million in 1999.

The decline of formal mealtimes and the growth of "grazing", associated with longer working hours and the fragmentation of family mealtimes, have meant a shift away from home cooking and towards convenience foods. Soup has benefited from this, although the snack market is intensely competitive. However the increase in the value of the soup market is due to the increase in money spent per purchase as sales of premium soups rise. Levels of consumption are actually falling.

In each segment of the soup market there is one overwhelmingly dominant brand: Heinz in the canned sector, and Knorr in the regular dehydrated packet sector. However, in the more dynamic chilled sector, private label dominates. To date, attempts at cross-sector product launches by the major brands have not been successful, with each brand failing to establish a niche in another brand sector's stronghold. This is likely to change as the market moves further in the direction of fresh chilled soup.

Both the premium ambient and the chilled sector are likely to fare best within the soup market, and there will be some degree of trading up as a result. New product development will also be essential in order to cater for the increasingly adventurous tastes of consumers. The strong branding within canned soups means that they (i.e., Heinz and Campbell's), will not suffer greatly at the hands of private label.

CONFECTIONERY

Sales of chocolate have remained stable as the UK's sweet-toothed consumers have continued to spend their money in the confectionery market. Sugar confectionery is up by over 6% compared with the same time last year and is now worth about £1billion. Chocolate still outsells "sugar" by a considerable amount but it is the sugar confectionery suppliers that are driving innovation.

New products this year have been mainly brand extensions. In this way, the new product variants have been able to build on the success of the established brand name.

The impulse confectionery industry had a rough ride last year. More than ever, children and teenagers have had increased demands on their disposable incomes: first from mobile phone vouchers, and latterly, the current phenomenon of Pokemon trading cards. As a result, retailers and manufacturers have invested heavily in offering value to their customers in order to support the market, which has been responding more positively of late.

However, it is not all doom and gloom. This increased competition in the market place has actually encouraged the key manufacturers to invest in new product development. We have seen many product introductions to the market this year,

with each experiencing varying levels of success.

Twist wrap boxed chocolates continue to grow at the expense of the traditional inlaid varieties. The long term future of this industry will rely heavily on clever product development, advertising creatively and displayed in a impulsive way. This, coupled with aggressive promotional activity to incentives multi-pack and bulk purchases, will help to secure a future for this new category.

BABY FOOD

Despite a dwindling birth rate (and hence customer numbers) and advertising restrictions, the baby food and drink market grew by 20% between 1995 and 1999, to a value of £366 million. This performance reflects manufacturers' success in adding value, creating new segments through new products and thereby encouraging trading up. This growth has come even though a drop of over 3% in the number of births were recorded over the same period.

Despite campaigns to promote "breast is best", data for 1999 and 2000 show that over 80% of housewives with a child under one-year of age claim to purchase baby milks. Those most likely to breast-feed are mothers with previous experience of doing so, older mothers, those with "Further or Higher Education" qualifications and women in higher socio-economic groups. Of those mothers breast-feeding initially, only 85% were still doing so after one week, falling to 65% after six weeks. Reasons for stopping initially include insufficient milk or painful breasts. The primary reason for giving up after three or four months is due to the mother returning to work, which reflects the impact of modern working practices among women--which in return drives combination feeding.

As more women return to work following the birth of a child, demand for convenience products grows, and working mothers are typically willing and able to pay a premium for such products. All sectors of the market saw promising growth between 1995 and 1999. Baby drinks returned to growth in 1999, reaching a value of £24 million. Vigorous growth came in the finger-foods category, which has evolved from the traditional rusk market with a new generation of baby-specific finger foods. It grew by an estimated 37% between 1995 and 2000 to reach a value of around £11 million by end 2000.

Healthy growth, in excess of 20%, has also been evident in the two largest segments of baby meals and baby milks, over the same 1995-2000 period. If unit sales are considered, baby meals are by far the largest segment, accounting for three quarters of the total. By value, baby milks assume far more importance--unit costs are much higher, with more servings per pack. Consequently, there is little difference in value terms between the two sectors. In 1999, baby meals were worth £165 million and baby milks £168 million.

The organic baby food market has taken off in recent years to reach a value of £27 million in 1999, up five-fold since 1995. Growth saw it outpace gains in the total market, such that it represents nearly 11% of the total market for baby foods in the UK with sales of £40 million. Concern about healthy eating has given a huge boost to sales of organic baby foods, and the sector is becoming increasingly mainstream, with a rush of new suppliers entering the market and big brands going organic. Choice is increasing and distribution patterns match those for non-organic baby foods.

Fierce competition among grocery multiples for valuable high-spending family customers has spawned a price and promotions battle in key baby categories, which spread to baby food in 2000. Baby-food promotions have escalated, with heavy discounting and multiple purchase offers becoming the norm in certain key outlets. This has had a deflationary effect on value, such that the market value did not grow in real terms during 2000.

SOFT DRINKS

Soft drinks remain one of the largest grocery categories, with an incredible 99% household penetration. In such a saturated market, it is increasingly difficult to find growth opportunities and yet the impulse sector in particular seems to have tapped into a number of incremental trends.

Non-traditional households (in particular, single persons) are growing considerably, radically altering the purchasing patterns of the soft drinks trade. Big weekly shopping is in decline, with an increasing reliance on top-up convenience. Consequently, impulse pack formats are growing at the expense of traditional take home packs. Manufacturers and retailers alike are switching their focus to take advantage. For example, the 2 litre price-marked twin-pack cola from the supermarket is out, replaced by the sandwich/500ml "meal deal to go" from Boots .

In addition, the changing habits of UK consumers are causing an increasing demand for unusual and exotic flavours in soft dinks that could result in these products outselling cola-flavoured drinks over the next five years. The increasing consumer sophistication means that greater numbers of unusual and exotic drinks are hitting the shelves, with flavours such as tamarind or star fruit appearing alongside traditional flavours. Orange, lemon, lime and peach, apple and strawberry remain the most popular flavours for new soft drink launches in the UK, but a wealth of other flavours such as coriander, lychee and star fruit have come onto the UK market in the past couple of years. Last year in the UK, each person drank 130 cans of flavoured (non-cola) carbonated drinks compared with 144 cans of cola. At the current rate of change, these non-cola flavour drinks eventually could topple the traditional dominance of cola in the soft drinks market.

It appears that the subtle, perhaps subconscious, impact of interesting flavours is becoming ingrained in British consuming habits. Examples of these changing habits

can be found in high streets all over the country with greater numbers of juice bars and coffee bars offering burgeoning varieties of exotic-flavoured morning pick-me-ups, as well as the expanding plethora of cooking programmes on television.

Additionally, the development of the drinks industry down the path of combining flavours, sometimes similar, such as orange and grapefruit or sometimes different, such as orange and ginger, has culminated in a majority (52%) of soft drinks in the UK having more than one flavour.

With more adventurous consumer eating habits in the UK, there is a golden opportunity for manufacturers and retailers, as they are now able to charge premium prices for new, unusual and exotic flavoured drinks.

Another area of soft drinks that has seen a switch in focus is that of functional drinks (Yakult), energy drinks (Red Bull and V), juice variety extensions (cranberry) and mineral water, which is reflected as consumers experiment with greater product diversity. Greater consumer spending power seems to be the catalyst, and similarly, those drinks categories that were once market mainstays seem to be experiencing considerable polarisation. In fact, "expensive" is in! Mineral water drinkers seek the quality reassurance of brands such as Evian and Volvic. "Exotic" is also in. Juice purchases are enticed by the premium priced multiplicity offered by a seemingly endless stream of cranberry mix and fruit combinations. The kids' market is no different--Robinson's Fruit Shoots took full advantage of the £180 million worth of pocket money purchases this year.

The fastest growing drink in the top 20 is Red Bull. The brand has doubled its sales over the past year, and sales in the multiples alone are up from just under £10 million in 1999 to over £22 million in year 2000. An increase in marketing spending to £15 million has undoubtedly helped sales, as has the company's argument that more shelf space should be given over to energy drinks as the sector can generate a much higher rate of sales than ordinary soft drinks.

"Water" has retained its position as one of the most dynamic categories over the past year. Stylish advertising and elegant new bottles have kept the Evian brand buoyant with nearly 18% growth in sales. Year 2000 also saw its sister brand Volvic --while not making it into the top 20--buying out *Touch of Fruit* (a fruit flavoured still mineral water), and is predicted to be a product line to watch over the coming year. As for Canadian waters, the period saw the re-introduction of NAYA spring water from Québec which is now owned by Danone, and the introduction of NEVA water from New Brunswick.

HOT BEVERAGES

This past year has witnessed a big swing into speciality teas, fruit infusions and speciality coffees, with retailers changing their range to mirror these developments.

Herbal and speciality teas have shown good growth. Some consumers are moving from standard into speciality teas, and the trend is bringing a lot of new users into the hot beverage market, as the fruit and herbal offering gives the whole category a much healthier feel. On the coffee front, the explosion of coffee shops the likes of Coffee Republic, Costa's and Starbucks means that people are also increasingly buying similar products to try at home and thereby bringing some new users into this premium sector.

ALCOHOLIC BEVERAGES

British shoppers have racked-up their total spending on alcohol by an additional £25 billion over the past 10 years, yet the traditional "off-licence" outlet is having a dry old time. It must have been small comfort for the trade to learn that off-licences have out-performed such endangered species as craft bakers, fishmongers and greengrocers over the past five year. That seems almost as reassuring as having the cabin nearest the bar on the Titanic!

Changing demographics and social factors, new specialist competition, both on- and off-line, and more than a million pints of beer a day coming into the UK from France in the trolleys of cross-Channel shoppers mean the odds are stacked against the traditional format.

Nowadays, you can pick up three bottles of decent wine for £10 at Tesco with the weekly shopping, while web sites such as Lastorders.com will deliver a case of Hoegaarden to your door within a few hours of your placing an order...and give you six free glasses in the bargain! Meanwhile, Majestic Wine Warehouse will carry the mixed case of your choice to your car or deliver it to your door, and Parisa will even sell you a cappuccino and a *ciabatta* while you decide which bottle of Cabernet to take home. Even the local convenience store has a decent range if you suddenly fancy a bottle of "table red" or a six-pack with your frozen pizza. So who needs the old fashioned "offie"?

In percentage terms, the penetration of off-licences in the multiple retailers grew the most during the 1990s, with all supermarkets now having an off-licence department. The multiples' share of the off-sales market is growing at the expense of both specialist off-licences and the independent grocers. In 1995, the multiples had a 54% share of the off-sales market, compared with 29% for the specialist off-licence and 17% for independent grocers and other licensed outlets. By 1998, the specialists, which include both conventional off-licences and other formats such as wine warehouses, had seen their share drop to 27%, while the independents and others had declined to 12%. The multiples now take a 61% share and are predicted to reach about 72% by 2003.

While the multiple shoppers continue to pile up their trolleys with booze, the specialists and independents are being left with that morning-after feeling. On the whole, British shoppers are buying more booze, but not from the places where they

used to. Since 1990, spending on alcoholic drinks has jumped from £128 billion to £153 billion, while sales through off-licences fell by 20% from £3.5 billion to £2.8 billion. The demographics also appear to be against the format. More women are drinking regularly and according to the Office of National Statistics, 86% of women over the age of 16 drink alcohol; 47% of them at least once a week, and 13% at least five times a week. And for most, multiples and convenience stores (c-stores) are far more female-friendly than the traditionally male preserve of the off-licence! If women pick up wine and beer as part of the weekly shop, men no longer need to visit the corner off-licence, which means the format loses out on one of the fastest growing sectors of the market.

The population is also ageing. Research shows that the most loyal users of specialist off-licences are men in their pre-family stage, whose leisure time is filled by relatively spontaneous activities and where limited budgets mean that bulk shopping is not an option. While a well-stocked off-licence with video rental and takeaway food nearby (if not on the premises) can offer the complete Friday evening experience for a group of friends, the high spending older customers will consider the likes of Sainsbury or Majestic a more attractive option.

Whereas wine is increasingly purchased in the multiples, c-stores are playing an increasingly key role in the UK beer market and have increased sales by 21% in the past year. Their growing importance has been highlighted in a market report by Interbrew which showed they were performing ahead of the multiple grocers which increased their share of the market by 11%.

WINE

UK wine suppliers and retailers are being asked to help finance the quest for a solution to a £100 million problem (i.e., the sum the industry estimates it loses each year through "corked" wines).

Companies are being asked to pay £2,500 each to fund research into what causes spoiled or tainted wines. Companies, including major multiples, have already signed up in principle. The research is being co-ordinated by the Wine and Spirit Association (WSA) which has appointed Camden and Chorley Wood Food Research Association to carry it out. The WSA noted that they are keen to have as many wine traders involved as possible--the greater the number, the more cost-effective for all.

The big issue is mustiness, mainly caused by *trichloroanisol* (TCA), usually called "cork taint", although it is widely acknowledged it can come from many sources, including corks.

Two buyers from each company will be trained to assess TCA taint. This will then be checked and the data passed on to the research association. The aim is to build up a reference library of thousands of samples which will identify hot spots where taint problems are occurring and put an accurate figure on how much it is costing the

trade.

The training sessions for the buyers began at the start of January 2001 and the WSA is hoping to make preliminary results available at this year's London International Wine & Spirits Fair (May). Full results should be available early 2002.

CHAMPAGNE AND OTHER SPARKING WINE

While the economic climate continues to indicate a term of relative prosperity, prospects for the continued sale of luxury goods are positive. With unemployment at its lowest level since the beginning of the 1980s, the economy is continuing to expand, interest rates are relatively low and salaries are rising. These factors provide a healthy foundation for the purchase of champagnes and, to a lesser extent, sparkling wines. The retail industries' continued desire to provide consumers with good quality, value-for-money products not only means that more alcohol is being consumed at home, but also that this product category is being included in an increasing number of shopping trolleys. Huge, global brands continue to dominate the market as consumers are reliant upon them for quality assurance.

While the pre- and post-Millennium celebrations provided a major sales opportunity for the sparkling wine market, early signs in 2000 showed that, to a large extent, overall volume growth was sustained. The growth of both branded and own-label Spanish *cava*, in particular, resulted in substantial volume growth in the off-trade, which saw the total market's value exceed £1 billion for the first time in 2000.

Consumers are becoming better informed about wines in general and there is a definite trading up in terms of quality in the champagne market. Gone are the days of crude, carbonated products even in the private label sector. Following their success in the table wine market, there is an increasing presence of New World sparkling wines, particularly from Australia and New Zealand where hi-tech production methods have resulted in quality brands at affordable prices on the UK high street. New product development is somewhat restricted in the sparkling wines category because of the legislative production methods imposed. As a result, most innovation is reliant on packaging developments and designs, notably the bottling of wines in blue glass or within designer wraps or clothing.

The volumes of both champagne and sparkling wines have been growing. Consumers have been drinking increasing amounts thanks to the wider availability of the products, increased affluence and a thriving UK economy. More women are drinking sparkling wines, and 28% of the population claim to have drunk a branded champagne in the last 12 months, although 26% of the population do not drink champagne at all. However, the big lesson for both retailers and brand owners to take on-board is that a fifth of consumers admit to knowing nothing about champagne or sparkling wines.

FOOD RETAILING

Sales through food stores in the UK market were valued at over £90 billion in 1999, an increase on the previous year of only 3.5%. Sales through non-specialised food stores, which included the major supermarkets, did not fare much better, increasing by 4% in 1999 to around £75 billion. However, there is real volume growth within those figures in value terms because the market was affected by negative inflation in the food sector. This negative inflation has been driven by the so-called "Wal-Mart effect" of downward pressure on prices from Asda/Wal-Mart's aggressive low price strategy, and by concerns over the possible findings of the Competition Commission investigation into the UK grocery retailing market. The Commission was looking for signs of excessive profit-taking, which the 1999 figures show less evidence of than previous years might have done. In the end, it essentially found none.

Looking forward, value growth is expected to be slow, with continuing pressure on prices, fierce competition for share, and demographic changes all resulting in a market offering few opportunities for growth. Retailers will, therefore, concentrate on added-value products such as the booming "food-to-go" segment, premium products, an increasing private labels' share of their business mix, and a supply chain and other operational improvements to drive costs out of the business.

Small food retailing businesses are still being driven out as the majors expand their operations and even take on the convenience retailing sector. The widely-reported dramatic decline in numbers of independents has continued over the time period, down by 21% since 1993.

Co-op numbers have fluctuated, but show a net decline since 1991. By contrast, the number of outlets belonging to multiple grocers grew continuously from 1993 to 1998. However, in 1999, there was a sharp reduction in store numbers. This is attributable to actions by the multiples such as Somerfield, which faced with a declining performance, took a hard look at its store portfolio, closing poorly-performing branches. ACNielsen's census data shows that multiples closed 144 stores of 25,000 sq ft or under between 1997 and 1999, whilst opening 87 large stores of over 25,000 sq ft.

In the last few years, the multiples have been dominated by 4 main players, however over the past 12 months the picture has changed. The top three grocers increasingly seem to be playing in a Premier League of their own. Tesco's share growth has continued at the top of the table, hitting 25% in 1999, and continued in a similar vein during 2000. Share taken by the top four multiples has increased further since 1998, despite the shares taken by Sainsbury's and Safeway slipping. The combined share of packaged groceries taken by Tesco and Asda has increased by 1.6 percentage points, with most of this being due to the strong performance of Asda.

Iceland is essentially a frozen food retailer which has discovered a real point of difference to exploit in the past few years, taking it well away from the "cheap and cheerful" message which formed the historic core of its strategy. It managed to move ahead of major rivals on both BSE and GM foods, and to behave in a more credible manner than some. Also, it has succeeded in improving the product range generally, so that customers who may originally only have visited in search of GM-free items have been attracted to buy more food there on a more regular basis. However, its major plan launched in 2000 to supply its private label brand vegetables with only organic products has proved disastrous, and forced a corporate retreat and re-think. Iceland appears to have fundamentally misread both its customers demand as well as the supply availability of organic products. The company dismisses this "mistaken" foray as simply the cost of being a leader in new retail thinking.

Almost every major food retailer has experimented in some way with home shopping, home delivery and/or e-tailing over the past couple of years. These initiatives were originally much applauded in a climate in which every e-commerce venture was seen as an inevitable winner. In more recent times however, a little more realism has crept in as those who have done the calculations have realised that getting customers to use the service may be the easy part--making money out of them remains the difficult bit.

Order-filling is proving to be very costly, especially when central picking leads to long distances travelled by delivery services. On the other hand, store-based picking runs a higher risk of out-of-stocks and therefore disappointed customers. Thus far, many customers have found the experience of Web-based grocery shopping dissatisfying, with software difficult to use and the general unreliability of the Web meaning that, far from saving time and frustration, on-line shopping can actually be more stressful than a trip around the supermarket. Delivery times and locations have also proved difficult, with a large proportion of e-shoppers [understandably] wanting the evening delivery slots.

ORGANIC RETAILING

There are no signs of the growth in consumer demand for organic products losing its momentum. Growth in the 1990s, which kick started the sector, was largely stimulated by food scares and an improving economy. Now however, consumers feel more informed or aware about food issues and this has helped reinforce their continuing commitment to organic products. A wide range of media, from broadsheets to tabloids, continue to play a crucial role in covering food and health issues and generating consumer interest.

The main continuing reason why consumers do not buy organic products is the price premium, but there is growing understanding of the need for this differential. Despite initiatives from major multiples like Asda to discount prices to a limited degree, the premium looks likely to survive. The organic industry is succeeding in

communicating to consumers that they may in effect be paying an even higher price for cheap traditional foods in terms of the health and environmental costs being absorbed indirectly.

The various logos of organic certification have taken on the attributes of brands and have a strong emotional resonance with consumers in terms of personal well being and health, and in the wider context of benefiting the environment. While the multiples' private labels have helped develop organic products for a mainstream audience, organic brands are now rebranding to become more mainstream as well. In the UK, there are still relatively few brands compared to more evolved European markets like Germany and Denmark.

The level of imports in an area like fresh produce, which accounts for over 50% of the organic market, is around 80% and is unlikely to diminish in the medium term. Farmers are still converting to the organics sector in large numbers, but with rising demand, the percentage of imports needed is unlikely to decline significantly over the next five years.

"Organic" is the biggest growth area for the multiples, and they have been major drivers since they hold over 70% of the retail grocery market. They have converted mainstream shoppers to organic products with product ranges varying between 500-1200 items. Specialist independents are providing ranges of several thousand products in a supermarket style one-stop-shop format and as the larger ones win private investment and expand into chains, they are broadening their outreach and raising the possibility of becoming quoted public companies to compete with the existing multiple supermarkets on a more equal financial footing.

However, few consumers who shop just once a week are likely to make a complete switch to the specialists in the short-term and become primary, as opposed to top-up shoppers. As independent chains increasingly develop private labels, they will be able to compete directly with the larger multiples' private labels.

Despite burgeoning growth in recent years, well over half of consumers still do not buy organic products at all. As supply improves therefore, there are clearly long-term prospects for winning new converts to this segment. Consumers who do not buy organic products continue to cite price as the main reason. However, those who buy organics show understanding of the need for a price premium. With demand

outstripping supply, there appears to be little need to try and woo the former category into the organic fold by offering cheaper prices at present.

There is a particular willingness and ability to use the Internet for shopping by consumers in this sector. Throughout the whole retail sector, e-shopping is changing many of the ground rules, particularly for organic produce which lends itself to the fresh approach of home delivery. The modest relative cost of offering a service on the Internet means that smaller producers and new e-tailers can reach

consumers directly competing with the multiples, and organic lends itself in particular to this type of customer contact. However, multiples offering e-shopping will now be able to introduce even larger ranges without the physical constraints of store shelf space.

As consumers want more information and traceability, produce "box" delivery schemes and farmer's markets offer an opportunity to get closer to the source of organic produce. The organic movement represents a reaction against the centralisation and anonymity of much of the food retail sector and against the trend of consolidation and increasingly vast food multiples. Buying directly from producers allows consumers to feel a greater tangible attachment to their food by "seeing" its source and making their own assessment.

In many ways, the UK is just catching up with the practice in much of the rest of Europe where regular bi-weekly farmers markets are a part of life. It is believed that much of the present animosity or lack of understanding between town and country can be accounted for by the distance of city dwellers from the source of production of their food. Now that greater and more direct linkages are being fostered, it is thought by advocates that consumers will develop far more knowledge about the food they eat and methods of production...which in turn will influence buying decisions.

Organic retailing is still at an early stage of growth, on the edge of a far broader market and like the new dot.com start-ups, any of the new well-run small retailers could become one of the large dominant groups of the future. While the last decade has seen the supermarkets steadily take share from the high street retailers and a 70% share of the organic sector, there is a major opportunity for independents and convenience stores to mount a challenge in organic food. The sector lends itself to specialised shops and consumers appreciate the informed, personal service they can provide. While independents may attract relatively few primary shoppers in the short-term due to pricing and space constraints, there is likely to be increased topping-up of items that consumers cannot obtain or forget to buy from their weekly excursions to the big multiples.

However, the new independent organic retailers may become victims of their own success and it remains to be seen whether the successful manage to retain their independence or become swallowed up by larger multiple groups wanting a fast track to organic expertise. Some of the leading UK organic brands have already been snapped-up by large overseas groups.

WINE RETAILING

The market for wine has grown strongly over the latter half of the 1990s with red wine outperforming white wine in terms of volume and value growth. With a strong economic background supporting consumer expenditure patterns, wine has become a regular part of the diet of many UK consumers. In the year 2000, the market for all

still light wine is estimated to be £6.2 billion including on- and off-trade. The off-trade has continued to increase its share of wine sales both by volume and value. In the year 2000, around 85% of all wine was sold through the off-trade, representing 52% of the market by value. Regional differences in wine drinking remain strong, and although wine is commonly consumed in all regions of the UK, the South East is the highest in terms of family expenditure.

The grocery trade in the UK has continued to increase its market share of wine retailing. In 1999, all grocery and c-stores took 76% of wine retail sales. At the same time, the specialist off-licence sector has been losing share of sales. Between 1998 and 1999, specialist off-licences dropped 0.4% of the market to end 1999 with 21% market share. Within these developments, there have been winners and losers. In the specialist off-licence sector, Victoria Wine and Thresher under their new joint company First Quench grew their market share to 12% in 1999.

Another development in the off-licence sector is the innovation of including café bars and adding eateries to wine stores (the Parisa Group). It is early days to say whether these are going to be ground breaking successful formats, although certainly there are plans for more Parisa café bars. The other Parisa facia to be performing strongly is Booze Busters. Launched in 1997, it has extended to 335 stores throughout the UK. Many sites have been rebranded from the former Cellar Five outlets and are positioned to tackle the bargain end of the drinks market.

The direct sell sector of the wine market continues to perform strongly with well-positioned wine clubs run by Direct Wines Ltd and The Wine Society. In addition, other direct sell companies continue to do well. Direct selling is developing in several ways, although the impact of the Internet is making its mark on the wine market. Internet trading is being developed by the majority of multiples, many independents and some suppliers in the wine market. As with any other sector of wine retailing, delivery is highly important and it is likely that those companies such as Direct Wines and The Wine Society, that have well established delivery mechanisms already in place, will perform strongly in the direct sell market.

The off-licence chains cannot afford to let direct selling take away any market share from their existing businesses and consequently they have every incentive to continue to develop strongly on the Internet. Meanwhile, the Internet is opening up niche opportunities for organic wine suppliers and other specialist wine merchants.

Consumers have been trading up in the wine market as a whole. In the mass market, consumers have traded up from around £3 to around £5 a bottle, and in the more sophisticated end of the mass market, £5 and £7 are becoming more regular price points. It is important for retailers to recognise the opportunities to trade consumers up in the market for wine, but at the same time it is also vital that they continue to attract new customers by having strong entry price offers.

Surveys (which compare March 2000 with June 1998), reveal that purchasing levels for wine are very similar, with just over 70% of consumers regularly buying wine. These surveys highlight that the key retail elements of price, choice, merchandising at the POS and convenience, are influential in shaping consumer decisions about where they buy wine. The top four reasons for choosing a new wine are: word of mouth recommendation; special offers in stores; seeing product on display; and in-store tasting.

Retailer/supplier relationships in the wine sector tend to be strong and continue to be important in the trade as a whole. The number of suppliers is increasing, particularly as the taste for wine from New World sources grows. Consequently, building strong relationships with suppliers is very important. Compared with many other retail markets, wine retailing has to deal with a large raft of suppliers and those that provide good service and good support to their retail chains are likely to continue to do well.

Wine is still perceived to be a relatively healthy and sophisticated drink, often served to friends and frequently drunk everyday in many households. The growth of the market is forecast to continue, especially while the economy remains strong. It is predicted that the specialist off-licence sector will continue to decline and small off-licences will suffer, but the wine warehouse format, pioneered by Majestic, will continue to grow. Wine retailing via the Internet is likely to show even greater growth over the next 2-3 years with supermarkets and specialist wine retailers taking advantage, and this will increase the pressure on the off-licence sector.